

Message Text

LIMITED OFFICIAL USE

PAGE 01 TOKYO 10697 01 OF 02 161025Z

21

ACTION EA-14

INFO OCT-01 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-03 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-03 INR-11 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 PA-04 PRS-01 USIA-15 DRC-01 /152 W

----- 090428

R 160944Z AUG 74

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 3989

LIMITED OFFICIAL USE SECTION 1 OF 2 TOKYO 10697

PASS TREASURY FOR COOPER AND CROSS

E.O. 11652: N/A

TAGS: EFIN, JA

SUBJECT: BALANCE OF PAYMENTS OUTLOOK FOR JAPAN

SUMMARY: FURTHER IMPROVEMENT IN TRADE BALANCE IS PROJECTED DURING SECOND HALF CY 74 BY EMBASSY AND LEADING PRIVATE FORECASTERS. THE CURRENT ACCOUNT WILL MOVE INTO SURPLUS ON SEASONALLY ADJUSTED BASIS GIVEN THE DOMESTIC ECONOMIC PROSPECTS FOR NEXT SIX MONTHS. IN 1975 THE CURRENT ACCOUNT COULD REMAIN IN SURPLUS IF POLICY OF DEMAND RESTRAINT WERE CONTINUED DURING THAT YEAR. ON THE OTHER HAND, IF ANTI-INFLATIONARY POLICY WERE EASED AND GROWTH IN DOMESTIC DEMAND ADVANCED AT A FASTER PACE, THE CURRENT ACCOUNT COULD MOVE BACK INTO DEFICIT IN 1975. THE JUNCTURE FOR GOJ DECISION MAKING REGARDING DOMESTIC ECONOMIC POLICY WILL PROBABLY NOT BE REACHED UNTIL FALL. END SUMMARY.

(1) DOMESTIC ECONOMIC OUTLOOK

ECONOMIC CONDITIONS ARE CONSIDERABLY LESS GLOOMY THAN MONTHLY FIGURES ON HIGH RATES OF BANKRUPTCIES MIGHT SUGGEST.
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 TOKYO 10697 01 OF 02 161025Z

DESPITE POLICIES TO CURB DOMESTIC DEMAND, PLANT AND EQUIPMENT

INVESTMENT REMAINS STRONG RELATIVE TO PREVIOUS CYCLICAL EXPERIENCES. RECENT SURVEYS BY EPA AND THE JAPAN LONG-TERM CREDIT BANK SUGGEST SPENDING IN JFY 74 WILL BE UP BY SOME 20 PERCENT. THE ADVANCE IN THE LAST HALF WILL BE PARTICULARLY RAPID. IN THE OSAKA REGION, SMALL AND MEDIUM BUSINESSMEN ARE REPORTED TO HAVE FEW SERIOUS CASH FLOW PROBLEMS DESPITE CURRENT POLICIES BECAUSE OF THE SWOLLEN PROFITS EARNED IN THE PAST YEAR. IN SOME SECTORS, THERE IS LITTLE SPARE INDUSTRIAL CAPACITY BECAUSE OF MEAGER INVESTMENTS DURING THE PAST BOOM. FORECASTS ANTICIPATE A SIGNIFICANT IMPROVEMENT IN INDUSTRIAL PRODUCTION IN THE LAST HALF OF 1974. IF, AS HAD PREVIOUSLY BEEN EXPECTED, THE GOJ BEGINS TO EASE ITS POLICY OF RESTRAINT, THE RATE OF REAL GROWTH IN 1975 MAY WELL REACH 9-10 PERCENT. ON THE OTHER HAND, IF CURRENT RESTRAINTS ARE CONTINUED DESPITE BUSINESS PRESSURES, IT WILL BE A SIGN THAT PRESENT PRIORITY OF A STRONG BALANCE OF PAYMENTS REMAINS UNCHANGED. UNDER A SLOWER GROWTH POLICY, JAPAN'S PAYMENTS POSITION WOULD BE SUBSTANTIALLY STRONGER. HARD GOJ DECISIONS REGARDING FUTURE FISCAL/MONETARY POLICY WILL PROBABLY NOT BE MADE UNTIL OCTOBER AT THE EARLIEST.

(2) BALANCE OF PAYMENTS OUTLOOK

(A) SECOND HALF CY 74

PREVIOUS FINATT FORECAST OF ANNUAL RATE SURPLUS OF \$4.4 BIL (SEASONALLY ADJUSTED) IS SOMEWHAT BELOW RECENT JERC (JAPANESE ECONOMIC RESEARCH CENTER) PROJECTION OF \$6.2 BIL AND MITSUBISHI BANK PROJECTION OF \$7 BIL. NOMURA RESEARCH INSTITUTE, WHICH SOMEWHAT LESS RELIABLE, FORECASTS TRADE SURPLUS OF ONLY \$2.8 BIL. NOMURA MAY HAVE SHADED ITS FORECAST DOWNWARD SO THAT JAPAN WOULD APPEAR TO ABSORB SOME PORTION OF THE B/P "BURDEN" OF OIL-CONSUMING COUNTRIES. AS FOLLOWING HIGHLIGHTS OF JERC FORECAST SHOW, TRADE SURPLUS IS ANTICIPATED TO DETERIORATE SIGNIFICANTLY IN FIRST HALF 1975 AS RESULT OF RESUMPTION OF DOMESTIC RATE OF GROWTH. EMBASSY CONSIDERS PAYMENTS PROSPECTS REASONABLE GIVEN ASSUMED GNP GROWTH RATE. HOWEVER, SHOULD GOJ ECONOMIC POLICY CONTINUE TO BE QUITE RESTRICTIVE NEXT YEAR, GNP LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 TOKYO 10697 01 OF 02 161025Z

GROWTH WOULD BE LOWER AND PAYMENTS DETERIORATION LESS.

(B) FOLLOWING ARE HIGHLIGHTS OF RECENT JERC FORECAST

HIGHLIGHTS JULY JERC FORECAST

1974 1975

DOMESTIC (ANNUAL PERCENT CHANGE)

MONEY GNP	23.1	27.4
REAL GNP	0.1	10.3
IND. PROD.	0.2	9.6
WPI	32.5	14.1

BALANCE OF PAYMENTS (IN BIL. DOL.)

EXPORTS	54.0	67.2
IMPORTS	52.2	64.3
TRADE BALANCE - YEAR	2.8	2.9
FIRST HALF	-1.3	1.6
SECOND HALF	3.1	1.3
CURRENT ACCOUNT	-1.6	-2.4
BASIC BALANCE	-7.7	-6.8

(3) GEOGRAPHIC PATTERN OF JAPAN'S EXPORTS

DURING 1973 AND FIRST HALF OF 1974, JAPAN'S EXPORTS UNDERWENT A SUBSTANTIAL CHANGE IN GEOGRAPHIC DISTRIBUTION. AS TABLE BELOW SHOWS, THE PRINCIPAL FEATURES OF THE CHANGE WERE A RAPID INCREASE IN THE SHARE OF EXPORTS TO LDC COUNTRIES (NOTABLY SEASIA BUT MORE RECENTLY TO MIDEAST COUNTRIES) AND DECLINE IN THE SHARE OF THE U.S. THE RISE IN THE LDC SHARE FROM 40.7 PERCENT IN THE FIRST QUARTER OF 1973 TO A 47.4 PERCENT PEAK IN THE FIRST QUARTER OF 1974 REFLECTS THE STRONG RESERVE POSITION OF LDC'S AND THEIR HIGH IMPORT DEMAND. THE DECLINE IN THE SHARE OF

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 TOKYO 10697 02 OF 02 161031Z

21

ACTION EA-14

INFO OCT-01 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-03 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-03 INR-11 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 PA-04 PRS-01 USIA-15 DRC-01 /152 W

----- 090498

R 160944Z AUG 74
 FM AMEMBASSY TOKYO
 TO SECSTATE WASHDC 3990

LIMITED OFFICIAL USE SECTION 2 OF 2 TOKYO 10697

PASS TREASURY FOR COOPER AND CROSS

THE DECLINE IN THE SHARE OF EXPORTS TO U.S. FROM 26.9 PERCENT TO 23.3 PERCENT WAS A CONTINUATION OF A MAJOR DECLINE FROM A PEAK OF 33 PERCENT IN THE SECOND QUARTER OF 1971. THE U.S. SHARE HAS STABILIZED AND MAY BE INCREASING ACCORDING TO MONTHLY FIGURES. IF THE U.S. SHARE WERE TO RISE IN THE COMING MONTHS, IT COULD WELL BE EXPLAINED BY SUCH FACTORS AS U.S. ECONOMIC RECOVER, DECLINING FOREX RESERVES OF NON-OIL LDC'S, AND THE LIMITED ABSORPTIVE CAPACITY OF OIL-PRODUCING COUNTRIES RATHER THAN THE RESULT OF ANY UNOFFICIAL JAPANESE "EXPORT DRIVE" TO THE U.S.. HOWEVER, EVEN IF THE U.S. SHARE REMAINS THE SAME, THE ANTICIPATED RAPID GROWTH IN JAPANESE EXPORTS WILL RESULT IN A STRONG INCREASE IN EXPORTS TO THE U.S. IF THE SHARE TO THE U.S. SHOULD RISE, EXPORTS TO U.S. WOULD GROW EVEN MORE RAPIDLY.

REGIONAL DISTRIBUTION OF JAPAN'S CUSTOMS EXPORTS

(PERCENT OF TOTAL EXPORTS)

TO: USA W.EUROPE LDC OTHER

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 TOKYO 10697 02 OF 02 161031Z

1973 1ST Q	26.9	18.9	40.7	13.5
1974 1ST Q	23.6	14.5	47.4	14.5
2ND Q	23.3	15.9	45.0	15.8
APRIL	22.1	16.2	46.6	15.1
MAY	22.9	17.8	43.0	16.3
JUNE	24.4	13.8	45.1	17.0
JULY	23.4	15.0	45.9	15.7

4. ACTION REQUESTED: FINATT REQUESTS TRANSMITTAL OF LATEST OECD PROJECTIONS FOR OTHER COUNTRIES AND CEA PROJECTIONS FOR US IN ORDER TO TAKE ACCOUNT OF DEVELOPMENTS ABROAD IN REVISING OWN PROJECTION OF PROSPECTS FOR JAPAN.
 HODGSON

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: INFLATION, EXPORTS, IMPORTS, PETROLEUM, POLICIES, BALANCE OF PAYMENTS, ECONOMIC TRENDS
Control Number: n/a
Copy: SINGLE
Draft Date: 16 AUG 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: CollinP0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974TOKYO10697
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740225-0944
From: TOKYO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740839/aaaabhmc.tel
Line Count: 222
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: CollinP0
Review Comment: n/a
Review Content Flags:
Review Date: 31 JUL 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <31 JUL 2002 by kelleyw0>; APPROVED <28 FEB 2003 by CollinP0>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: BALANCE OF PAYMENTS OUTLOOK FOR JAPAN SUMMARY: FURTHER IMPROVEMENT IN TRADE BALANCE IS PROJECTED
TAGS: EFIN, JA
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005